A Review of Past Montana Tax Study Committees

This document provides a brief overview of the charge, study recommendations, and subsequent legislation stemming from past tax reform and other studies conducted in Montana over the course of the past 13 years. Studies are presented in the order of the earliest to the latest.

House Joint Resolution 55 – 52nd Legislature (1991)

Study Committee: Revenue Oversight Committee

Committee Charge: HJR55 (1991) directed the Committee to:

- examine existing sources and levels of taxation, with particular attention given to the classification of property and the taxable percentages applied to that property, and evaluate the sources and levels of taxation.
- examine alternative methods of taxation from existing sources as well as new sources of revenue, such as broadening the property tax base to include, among other things, stocks and bonds, and evaluate the alternative methods and new sources; and
- develop recommendations for a balanced and integrated tax structure for the state.

Committee Recommendations:

The final report of the Committee to the 53rd Legislature noted that HJR55 provided no additional funding for a comprehensive tax reform study. Consequently, the Revenue Oversight committee concluded that "…a comprehensive tax study could not be completed by the Committee because of a lack of adequate resources." The Committee did provide for a "backward-looking" report that essentially reviewed the criteria for sound tax policy, examined general principles of sound tax policy, summarized oral presentations and written material provided by nine panelists at a public form held on tax policy, and summarized details of the state's individual and corporate income taxes.

Primarily due to a lack of adequate funding, the Revenue Oversight Committee did not offer any recommendations or a list of options for the Legislature's consideration.

House Joint Resolution 30 – 53rd Legislature (1993)

Study Committee: Revenue Oversight Committee

Committee Charge: HJR30 (1993) directed the Committee to:

- evaluate the purpose and effectiveness of all tax expenditures in the Department of Revenue's *Tax Expenditure Report for the State of Montana: Fiscal Years 1994 and 1995*;
- evaluate the tax expenditure report and make recommendations for changes in reporting procedures or on tax expenditures that may not be included in the report;
- compare Montana's tax expenditures to those of other states, particularly neighboring states; and
- develop options for consideration and recommendations, including legislation, if considered appropriate, for changes in existing statutes on tax expenditures.

Committee Recommendations:

The final report of the Committee provided a comprehensive discussion of the tax expenditure concept; a history of tax expenditure reporting at both the federal and state level; specific information pertaining to tax expenditure items in Montana; a review of tax expenditure reporting in other states; and a list of suggestions to improve the tax expenditure reporting process (including suggested items to include as tax expenditures that were not being reported at the time).

However, the Committee made no specific recommendations for changing either the Department's tax expenditure report, or the tax expenditure reporting process.

Subsequent Legislation: None known.

Tax Advisory Council for Property Ownership (TACPO)

Study Committee: Council of Non-Legislative Citizens Appointed by Governor Racicot

Committee Charge:

Develop a property tax system that allows Montana residents to remain in their homes and to own property without having the costs of ownership become prohibitive due to significantly increasing property tax bills.

Committee Recommendations:

The Council considered the approaching November "sticker shock" arising from reappraisal but was unable to find any immediate solution to address and mitigate the impacts from reappraisal. The Council found that the current method of reappraisal is sound. To mitigate the impact on selected taxpayers, the Council recommended an immediate extension of the low-income assistance program application date, extending the elderly homeowner/renter property tax credit program to all taxpayers, and implementation of a taxpayer awareness program to provide information on these programs.

In the longer term, the Council recommended that market value increases be limited to a certain percent each year, and that a realty transfer tax be implemented that would apply to the difference between the selling price and the appraisal value in the year any residential or commercial property was sold. This tax should not exceed 5%, and should be structured to gradually increase based on the number of years the homeowner has been taxed on less than the home's market value.

The Council also acknowledged that future approaches to mitigating the impacts of reappraisal could involve capping market value increases or adopting the acquisition value approach to taxing residential properties. Under these circumstances, the Council acknowledged that these approaches likely would require modifications to the Montana Constitution to ease the requirements that ad valorem taxation be uniform and equalize the value of all property across the state.

Subsequent Legislation:

HB497, passed during the 1995 legislative session, broadened the low-income property tax assistance program by 1) increasing the market value of property eligible for the program, and 2) increasing eligibility income levels; and increased the maximum credit allowable under the elderly homeowner/renter credit program from $400 to $1,000.

Motor Vehicle Taxation Study Group

Study Committee(s), Background, and History:

The Motor Vehicle Taxation Study Group had its genesis in HB50, passed during the November 1993 Special Session. That bill generally restructured the property valuation and assessment functions of DOR, but also directed the Governor to appoint an advisory committee to study the valuation and taxation of motor vehicles and mobile homes. The advisory group had to be comprised of a county treasurer, a county assessor, an employee of the Motor Vehicle Division of DOJ, an employee of the Department of Transportation, and an employee of the Property Assessment Division of the DOR. The work of this advisory committee culminated in the introduction of HB363 during the 1995 legislative session.

HB363, which, among other things, would have taxed all motor vehicles at 2% of depreciated manufacturer's suggested retail price (MSRP), passed the House, but was tabled in the Senate Taxation Committee, which concluded that the issues needed additional study, and further suggested that the study be undertaken by the Revenue Oversight Committee (ROC).

In January, 1996 staff of the ROC created and convened a 16-member "motor vehicle taxation group" comprised of Committee staff, employees of the Departments of Justice, Transportation, and Revenue, a county treasurer, and representatives of the Montana Automobile Dealers Association and trucking industry. The "group" was informally divided into a project team largely responsible for conducting the actual analyses needed, and an advisory group responsible for providing direction and policy options.

Committee Charge:

Generally speaking, the charge of the various motor vehicle taxation study committees and groups was to develop a system of motor vehicle taxation that increased administrative efficiencies, was simple to understand and implement, and provided for fairness in the taxation of all motor vehicles.

Committee Recommendations:

Among other things, the study group ultimately recommended that the taxation of light vehicles (cars, trucks, vans, and sport-utility vehicles) be changed from 2% of the current year's average trade-in value (as shown in "Blue books") to 2% of depreciated MSRP; and that separate depreciation schedules be implemented for each of the four types of light vehicles. The study group further recommended that the taxation of heavy trucks and buses be changed from a property tax based on assessed values and local mill levies to a flat fee schedule based on age and weight.

Subsequent Legislation:

Senate Bill 26 (1997) exempted from property tax all truck canopy covers or toppers, campers, trailers, semitrailers, pole trailers, and travel trailers, and provided for a fee in lieu of tax based on age and weight for trailers, pole trailers, and semitrailers having a declared weight of less than 26,000 pounds.

Senate Bill 57 (1997) generally revised the classification, valuation and taxation of motor vehicles. It provided for taxing automobiles, light trucks, vans, and sport-utility vehicles at 2% of depreciated manufacturer's suggested retail price

(MSRP), with separate depreciation schedules provided for each of these vehicle types. It also exempted from property taxation buses, heavy trucks, truck tractors, and personal property attached to these vehicles, and imposed a fee in lieu of tax (FILT) on these vehicles based on age and weight. SB57 also replaced the property tax on motorcycles and quadricycles with a FILT.

SB57 further directed the legislative audit committee to continue to conduct analyses of alternative methods of classification, valuation, and taxation of light cars and trucks.

Montana Tax Policy Task Force (MTPTF)

Study Committee:

The Montana Tax Policy Task Force (MTPTF) was created by SB417 (1995), and was statutorily required to be composed of 8 members appointed by the Governor broadly representative of taxpayer groups, business and industry, labor, local government and consumers; 4 members of the House; and four members of the Senate.

Committee Charge:

The task force was require to study all aspects of taxation in Montana, and make findings regarding the burden of state and local taxation borne by various segments of the state's economy, and various categories of individual taxpayers.

Among other things, the task force was further required to consider:

- the existing sources and levels of taxation and provide an evaluation of those sources and levels;
- the relationship between federal and state income taxes;
- the relative portion of total taxes collected from each business sector and each category of individual taxpayer;
- the impact of state and local taxation on economic development;
- alternative methods of taxation from existing as well as new sources of revenue, and evaluate the alternative methods and new sources; and
- funding for local governments.

Based on the findings from the above, the task force was to develop recommendations, alternatives, or both, for 2-year, 10-year, and 25-year tax policy strategies for Montana.

In reviewing local government finances, the task force was to study among other things:

- the current sources of funding local government, the viability of current sources, and the need for additional or alternative funding sources;
- the financial and funding restraints currently imposed on local governments; and
- the ability of local governments to meet future budget requirements

Committee Recommendations:

Short-term Recommendations

The Legislature should formally adopt standard *guiding principles of taxation* (fairness, stability, economic neutrality, etc.) to assess the appropriateness of current and future tax policy proposals.

The task force found that property tax relief to be of immediate paramount importance, and recommended legislation that provided for the following:

- the total amount of property taxes levied by any taxing jurisdiction could not exceed the amount levied for tax year 1996;
- this limitation would not apply to increases in taxable valuation from new construction, expansion, or remodeling of improvements;
- the limitation would not preclude an increase in property taxes to offset reductions in nonlevy revenues from extractive industries;
- the limitation would apply to all jurisdictions except for the general fund of elementary and high school districts having a general fund budget less than the base budget;
- the limitation would not preclude property tax increases authorized by the electorate.

The task force recognized that while the limitation would cap the total taxes levied by a given taxing unit, it would not prevent the possibility of large property tax increases for owners of individual properties. While the task force addressed and grappled with this issue, it was unable to address how to resolve this problem.

Local Government Recommendations

- Allow for a local option motor fuels taxing authority to be comprised of special “transportation districts” that could include the county, a single municipality, or a combination of county and municipal areas.
- Allow *unincorporated* resort areas to issue bonds backed by anticipated resort tax revenues (similar to issuances already allowed *incorporated* resort areas).
- Allow a resort tax area to include both incorporated and unincorporated areas.
- Allow imposition of a “resort type” sales tax for all municipalities and counties upon approval of the electorate.

Longer Term Recommendations

The task force did not have sufficient funding or time to develop long-term tax reform recommendations. However, the task force's final report noted the following recurring themes deemed essential to long-term reform:

- Any comprehensive reform proposal should result in overall revenue neutrality.
- High and burgeoning property tax bills are the primary source of taxpayer discontent in the state. To address this problem the following options should be considered by subsequent tax reform committees:

    - Provide residential property tax relief by allowing a credit against individual income taxes roughly equivalent to any property tax increase stemming from reappraisal.
    - Eliminate the current 95 statewide mills levied for state equalization of schools.
    - Require the state to fully fund 80% of each school district's general fund budget to enhance equalization and reduce property tax burdens.

- Comprehensive reform involving significant reductions in income and property taxes can best be accomplished through implementation of a broad-based retail sales tax. In this context, the task force felt that property taxes should fund municipal and county governments, whereas the sales tax should provide funding for schools.
- Safeguards must be built into any reform proposal guaranteeing that property and income tax reductions could not be reinstated.

Subsequent Legislation:

Senate Bill 195 (1997) addressed the impacts of the recently completed reappraisal cycle. Among other things that bill required that local governments (other than school districts) could levy no more in property taxes (exclusive of new construction) than the amount levied for tax year 1996, without a vote of the electorate; and provided for an interim property tax study committee (see next section).

SB 195 Interim Property Tax Study Committee

Study Committee:

The Interim Property Tax Study Committee was created by the Legislature in SB195 (1997), and was comprised of 6 members of the House and 6 members of the Senate.

Committee Charge:

The Committee was charged with studying all aspects of the state property tax system, and to provide a menu of alternatives to revise, reform, or replace the property tax system. Alternatives should be designed to remove volatility from the valuation of property, and include options designed to supplement or replace the current valuation system in order to prevent the exclusive reliance on market value.

Committee Recommendations:

Ultimately, the Committee recommended a menu of "minor" options and "major" options.

The minor options recommended included:

- Allow local governments to implement, after voter approval, a *local option sales tax* similar in nature to the existing resort community sales tax, where at least 5% of the local option sales tax must be dedicated to property tax reductions.
- Enhance the current law *low-income property tax abatement and elderly homeowner/renter credit programs* by expanding income eligibility requirements and increasing the elderly credit from $1,000 to $1,500.
- Provide businesses with a tax reduction by exempting the first $25,000 of business equipment from taxation.

The major options recommended included:

- Implement the "acquisition value" approach found in California's Proposition 13. Assessed values could be adjusted annually by the lesser of inflation or 1%. Base value would have been 1993 assessed value until the property was sold, at which time the value for tax purposes would be the selling price.

- Implement a "combination alternative" having the following features:

  - tax year 1999 values would be the most recent (1996) values for homes and businesses;

- exempt from taxation 25% of the first $100,000 of market value of single-family residences;
- reduce the statewide 40-mill equalization levy to 37 mills; and
- reduce the statutory tax rate on Class 4 properties from 3.816% to 3.25%.

- Provide for comprehensive tax reform that incorporates the following features:

  - impose a statewide 4% general retail sales tax;
  - exempt business equipment and livestock from taxation;
  - replace about $400 million of property-tax-funded school costs with state funding;
  - provide sales tax rebates to low income households;
  - reduce the flat tax rate on automobiles and light trucks from 2% to 1.5% of value;
  - provide homeowners with a homestead exemption equal to 65% of the first $50,000 of value;
  - assess all property at 100% of market value;
  - limit future property tax increases; and
  - submit the act to the voters for approval.

Subsequent Legislation:

Several pieces of legislation have been introduced in recent years that have or would have provided for many of the features recommended by the Committee.

Legislation has been introduced on several occasions to provide local governments with local option sales taxes. None of these pieces of legislation were passed and local governments continue to operate without local option sales taxes in Montana.

Business equipment taxes have been reduced. SB200 (1999) phased out and eliminated property taxes on livestock; reduced the taxable valuation rate for business equipment from 6% to 3%; provided for subsequent elimination of the business equipment tax upon the occurrence of a wage and salary growth trigger; and exempted from taxation the equipment of those businesses having $5,000 or less in market value of business equipment.

The Legislature has introduced bills that would have provided for the acquisition value approach to property taxation (see SB260, 2003 Legislature, for a recent example), but no bills including the acquisition value approach to property taxation have been passed.

SB184 (1999) addressed several of the Committee recommendations. It provided for a cap on the maximum number of mills that could be levied within taxing jurisdictions; phased in a reduction in the taxable valuation rate applied to Class 4 properties from 3.86% to 3.46% over the period 1998 to 2002; provided for a homestead exemption for residential properties that increased from 16% of value in 1999 to 31% of value in 2002; provided for an exemption for commercial properties that increased from 6.5% of value in 1999 to 13% of value in 2002; and implemented a 6-year reappraisal cycle with the requirement that increases in market value stemming from reappraisal be phased-in in equal increments over the following 6-year period.

SB260 (1999) reduced the tax rate on light cars and trucks from 2% to 1.4% of depreciated MSRP.

Individual Income Tax Simplification Studies

Study Committees: Montana Society of CPAs
Revenue and Taxation Committee

Committee Charge:

Beginning in the summer of 2000, and continuing up through the end of the year, in preparation for the 2001 Legislative Session, the Montana Society of CPAs (MSCPA), working with the Department of Revenue, and ultimately with the Revenue and Taxation Committee, developed a series of proposals designed to simplify the state's individual income tax. Relative to many other states, Montana's individual income tax is considered to be highly complex, due in large part to the ability of two-earner married couples to file separate tax returns. Most other states require married couples to file a joint return if they did so for federal income tax purposes. Because nearly all married couples file joint returns for federal income tax purposes, Montana's laws allowing a separate filing for marred couples greatly complicates the return preparation process relative to most other states.

Committee Recommendations:

The MSCPA worked with the Department of Revenue to examine a series of six alternative proposals that would have tied state income taxes directly to:

- *federal taxable income*, with sub-options using four separate tax rate tables, using a single tax rate table, and using a single tax rate; with the requirement that married couples file using their federal filing status (i.e., file jointly);
- *federal adjusted gross income* (FAGI) with sub-options using one tax rate table and using a single, flat rate; again with the requirement that married couples file using their federal filing status; and
- federal tax liability using a single tax rate.

The MSCPA also looked at a proposal that would have eliminated the state deduction for federal income taxes paid during the tax year with a corresponding revenue-neutral reduction in the top marginal tax rate applied to taxable income.

All of the recommendations were revenue-neutral. Proposals tying to federal taxable income or federal tax liability would have removed about 34,000 taxpayers or households from the income tax rolls, as taxpayers would have been allowed to take the federal standard deduction and personal exemption amounts, which are significantly higher than corresponding state amounts.

The Revenue and Taxation Committee chose to focus on a proposal that would tie state tax liability to federal taxable income, using four separate tax rate tables (one each for single filers, heads of household, married couples filing jointly, and married couples filing separately), that was very similar to Senate Bill 5 (Ellis), introduced during the May, 2000 special legislative session.

Subsequent Legislation:

Senate Bill 173 (Ellis), which essentially embodied the recommendations of the Revenue and Taxation Committee, was introduced during the 2001 Legislative Session. The bill was heard in Senate Taxation Committee, but was subsequently tabled.

Over the course of the past two decades, many bills have been introduced that would have tied state tax liabilities to either federal taxable income or federal tax liability. In all cases these bills would have removed between 30,000 and 50,000 low-income taxpayers from the income tax rolls, eliminated the deduction for federal income taxes paid, and simplified tax filing by requiring nearly all married couples to file joint income tax returns for state income tax purposes. None of these measures have passed the Legislature, however.

Court Funding and Structure Committee

Study Committee:

The Court Funding and Structure Committee was created by SB184, 1999 Legislative Session, and was comprised of two members of the House, 2 members of the Senate, one member appointed by the Chief Justice of the Montana Supreme Court; and the following members appointed by the Governor: one member representing cities and towns, one member representing counties, one member representing the Montana judges association; one member representing the Montana magistrates association, and one clerk of court.

Committee Charge:

SB184 provided that the purpose of the committees is to conduct a study of funding local government, including the courts, to ascertain the best method of allocating current and future resources, while providing a complementary funding relationship between local government and state government. This complementary funding relationship must provide stable and reliable revenue streams to local governments, including the courts. The study must explore regional concepts, as well as further lifting of local government revenue restrictions and de-earmarking of revenue to local governments. The complementary funding relationship must meet the criteria set forth in the following vision statement, adopted by the local government funding and school finance visioning group:

"We are dedicated to partnerships among the state, counties, cities, and school districts that are based on mutual trust and respect for local authority. This partnership will enable all governments to respond to the demands of their citizens in the 21st century through a mix of taxes and fees that is understandable, equitable, stable, and adequate. The collection and distribution system for these taxes and fees will be simple, efficient, accurate, and timely."

Committee Recommendations:

The principal recommendation of the Court Funding and Structure Committee was that funding for 100% of district court costs (with the exception of clerks of court, and their staff and operating expenses) should come from the state. Other major recommendations included:

- The clerk of district court should remain an elected official.
- Creation of a District Court Council responsible for establishing administrative procedures for the state-funded district court program, with the Supreme Court able to veto by a majority vote administrative procedures established by the Council. The Council would address issues related to workload indicators, hiring policies, court procedures, information technology, and any legal issues that may arise from the state-funded system.
- Provision for transitional fund for salary adjustments so employees who are paid below what the state would pay for the responsibility of the position could be adjusted to the appropriate pay level on July 1, 2002; and development of a judicial branch pay plan during fiscal 2002.
- Adding 8.5 full-time equivalent (FTE) employees to the judicial branch of government to administer the district court program on a statewide basis.
- Local governments will not be paid for offices, courtrooms, and other space used by the district courts.
- Local governments are authorized to supplement the state judiciary budget for district courts. Clear direction to allow local governments to contract with the judicial branch to supplement the district court budget is specified in law. A provision that specifically allows counties to sign agreements with, and transfer money to, state agencies for any purpose should be incorporated into the re-write of county finance laws by the Local Government Funding and Structure Committee.
- A variety of how court reporter services could be provided and funded.

Subsequent Legislation:

SB176, passed during the 2001 Legislative Session provided for transferring funding responsibility for district courts from local government to the state. That bill also provided for most of the other recommendations stemming from the Court Funding and Structure Committee study.

Local Government Funding and Structure Committee

Study Committee:

The Local Government Funding and Structure Committee (LGFSC) also was created by SB184, 1999 Legislative Session, and was comprised of two members of the House, 2 members of the Senate, and the following members appointed by the Governor: two members representing cities and towns, two members representing counties, one county treasurer, and one member from the executive branch of state government.

Committee Charge:

(See charge for Court Funding and Structure Committee, above.) In addition, the LGFSC established the following as its three primary goals:

- Simplify billing, collection, accounting, distribution and reporting of all revenue.
- De-earmark revenue and eliminate expenditure mandates for local government.
- Create a rational, dependable, stable funding structure for cities and counties.

Committee Recommendations:

The scope of the LGFSC was expansive, and the final recommendations covered the following diverse elements:

Budget and Accounting

Due to the wide variety and disparity in budget and accounting laws for local governments, the committee established a work group to develop legislation to provide a single set of uniform budget and accounting laws for local government. The draft legislation:

- Simplifies the accounting requirements and expands local financial flexibility and authority.
- Gives county and city commissions clear financial oversight and authority for mill levies and fees.

- Expands and strengthens the Department of Commerce's reporting and audit responsibilities.
- Has an all-inclusive definition of "local governments."
- Eliminates detailed accounting provisions in statute.
- Specifically states that it "… does not provide for the consolidation or reassignment of any duties of elected county officials."
- Provides for the county or municipal treasurers to be the custodians of all public monies, including those of special authorities and districts.
- Creates budget adjustment flexibility for some fund types and fee-based budgets.
- Allows for judgment levies to be outside the property tax limit.
- Provides all mill levies are subject to county or municipal governing board, omitting the past exception for special districts, such as library and airport mill levies.
- Provides for an extended deadline for setting tax levies if certified taxable values are received late.
- Provides for the amendment or repeal of over 80 existing county and municipal laws.

Revenue Changes

- Changes the flow of revenue so that most revenue remains with the government that collects it. The exception is vehicle revenue (light vehicle and truck fees and taxes) that will be transferred to the state general fund. Gambling revenue will be retained by the state. Other changes include the elimination of the property tax reimbursement programs, consolidating the vehicle registration fees into one registration fee, making other vehicle fees uniform, and having all district court fees, fines and forfeitures deposited into the state general fund.
- Provides general fund statutory appropriations to replace the de-earmarked revenue for state agencies.
- Redistributes the de-earmarked revenue to schools through a two-year reimbursement program, similar to that provided in SB184.

Expenditure Changes

- Transfers total funding responsibility for welfare to the state.
- Transfers the funding responsibility for district courts excluding the clerk of district court and their staffs, to the state.

Entitlement Share

Creates general fund Entitlement Share (statutory appropriation from the state general fund) to ensure that local governments receive the same amount of revenue they received in fiscal 2001 with vehicle fees altered to reflect HB540.

- Sets the growth rate indices for the Entitlement Share pool at 70% of the five-year rolling average of the state gross domestic product and personal income. The growth rate is 3.2% for fiscal 2002, and 3.1% for fiscal 2003.
- Establishes a short-term allocation methodology for the Entitlement Share based on first, increasing the base allocation for each county and city by inflation and second, by distributing any remaining funds based on population.
- Establishes a study to develop a long-term funding allocation method for the Entitlement Share program for local government that takes into account tax capacity, tax burden, and the wide disparity in mills levied under current law.

Property Tax Limit

The SB184 property tax limit remains in place as an overall property tax limit. Existing local government mill levy caps have been eliminated except for the 2-mill emergency levy. The committee recommendation modifies the SB184 property tax limit as follows:

- Provides a transitional limit for fiscal 2002 to provide at least 2% revenue growth above fiscal 2001 from the Entitlement Share and property tax.
- Establishes a long-term property tax limit, which will be the fiscal 2002 amount of property tax assessed, plus a growth factor of ½ of the last three-year average rate of inflation.
- Preserves the right of local governments to use the full property tax limit in the future without utilizing it every year.
- Clarifies and improves the definition of "Newly Taxable Property".

De-earmarking and Mandate Guidelines

- Establishes guidelines for earmarking revenue to local government and a process to continuously review the earmarked revenue.
- Clarifies the process of establishing and funding state mandates for local governments.

Local Option Taxes

- Authorizes a local option sales tax not to exceed 4%. A vote of the electorate is required and there is some revenue sharing between urban and rural counties.
- Authorizes up to a 1% local option realty transfer tax for infrastructure, with 20% being in a state operated program and 80% staying in the local community. A vote of the electorate is required.

State and Local Government Relationship Committee

Creates a temporary (four years) State and Local Government Relationship Committee, composed of legislators and local government officials to:

- Promote and strengthen local governments.
- Bring together representatives of state and local government for consideration of common problems.
- Provide a forum for discussing state oversight of local functions, realistic local autonomy, and intergovernmental cooperation.
- Identify and promote the most desirable allocation of state and local government functions, responsibilities and revenue.
- Promote concise, consistent and uniform laws and regulations for local government to achieve a more orderly and less competitive fiscal and administrative relationship between and among state and local governments.

Subsequent Legislation:

HB124 ("The Big Bill"), passed during the 2001 legislative session, embodied most of the recommendations of the Local Government Funding and Structure Committee. HB124 did not, however, authorize either a local option sales tax or realty transfer tax for local governments. It did provide for and facilitate transferring responsibility for district courts and certain welfare program costs to the state.

It also redirected a substantial amount of revenue from motor vehicle and boat taxes and fees, video gambling, certain district court fees, corporate taxes paid by certain financial institutions, alcohol taxes, state aeronautics fees, and DNRC PILT payments from local governments entirely to the state general fund. In turn, local governments were provided with an "entitlement share payment" designed to offset the revenues foregone (net of cost savings from welfare program and district court functions) and grow over time with the state's economy.

State agencies that previously received a share of some of the revenue sources redirected to the state general fund were provided with statutory reimbursements for motor vehicle and boat revenues based on actual vehicle counts and current law fee amounts.

HB124 further removed all mill levy caps from all local government funds and programs, and provided for an overall mill levy cap that allows property taxes to grow by half the rate of inflation while providing local governments with added flexibility in levying the maximum number of mills. The bill also clarified "newly taxable property" for mill levy purposes.

Block grants were provided to school districts, countywide retirement and transportation districts, and tax increment financing districts for revenues foregone under the revenue shifting provision.

Governor’s Individual Income Tax Advisory Council

Study Committee:

The Individual Income Tax Advisory Council appointed by Governor Martz was comprised of 14 members representing the Legislature, academia, state agencies, and the private sector.

Committee Charge:

The charge to the Governor’s Individual Income Tax Advisory Council was to:

> *Recommend a proposal to reduce Montana’s income tax by 10% in a manner that benefits Montana taxpayers at all income levels, reduces the top marginal rates and reduces the effective capital gains rates. To accomplish these goals, the council shall explore eliminating federal deductibility.*

Committee Recommendations:

It was the general consensus of the Governor’s Individual Income Tax Advisory Council that the following recommendations be made with respect to the charge given the Council:

- The top marginal tax rate for the Montana individual income tax should be reduced from its current level of 11% to 6.9%.
- The current law deduction for federal income taxes paid should be capped at $5,000 ($10,000 if married and filing a joint tax return).
- The administration should consider including in any proposed individual income tax reform legislation a tax credit equal to 1% of the taxpayer’s capital gains income, if the information from tax year 2001 individual income tax returns indicates that the cost of this proposal does not substantially prohibit achieving any of the other stated goals and objectives included in the Governor’s charge to the Council.
- The total amount of tax relief provided through a 10% reduction in individual income taxes should be distributed across income brackets in a manner that ensures that no taxpayer income class experiences more than a nominal increase in tax when the tax increase effects of the tourist tax are combined with the individual income tax reduction.

Subsequent Legislation:

SB407 (2003) generally implemented the recommendations of the Advisory Council. Among other things that bill reduced the state's top marginal income tax rate from 11% to 6.9%; capped deductibility of federal taxes paid during the year at $5,000 ($10,000 if filing jointly); and provided for a new capital gains tax credit equal to 1% of the taxpayer's net capital gain (the credit increases to 2% beginning with tax year 2007).

Governor's Tourist Tax Advisory Council

Study Committee:

The Tourist Tax Advisory Council appointed by Governor Martz was comprised of 16 members representing the Legislature, local governments, state agencies, the tourism and other sectors of the economy, the Montana Chamber of Commerce, the Montana Taxpayers Association, and labor organizations.

Committee Charge:

The charge to the Governor's Tourist Tax Advisory Council was:

> *Recommend items that should be taxed under a statewide tourist tax to ensure tourists pay an appropriate share of the state's tax burden and the other provisions necessary to administer the tourist tax. The tourist tax must raise enough revenue to fund the income tax reduction.*

Committee Recommendations:

The Tourist Tax Advisory Council made the following recommendations:

- In general, the tax should be on sales of categories of goods and services. However, there are types of business where this is impractical, and there should be an option for those businesses to pay the tax on their gross receipts.
- The tax should be on the following categories of goods and services, as shown in Appendix B:
  - prepared food
  - alcoholic beverages sold by the drink
  - accommodations
  - rental cars
  - rental of recreational equipment
  - guided recreation and sightseeing
  - admissions (except for movies and school sports)
  - camp tuition
  - recreation fees
  - souvenirs

- The tax rate should be set to collect the amount of revenue needed to offset the income tax cut recommended by the Governor's Income Tax Advisory Council, pay administrative and system costs and provide for a vendor allowance.
- The tax rate should be the same on all taxable sales.
- The tax rate should be the same year-round.
- There should be a vendor allowance. The allowance should be 5% of the vendor's tax collections, with a maximum of $1,000 per quarterly reporting period. Vendors with collections of less than $10 in a reporting period should not be required to remit tax for that period.
- The tax should not be called a tourist tax. The Council did not agree on a name to recommend.

Subsequent Legislation:

SB407, while not providing for the limited sales tax contemplated by the Advisory Council, did provide for a new 3% sales tax on accommodations, and a 4% sales tax on rental vehicles.

Governor's Local Option Tourist Tax Advisory Council

Study Committee:

The Local Option Tourist Tax Advisory Council appointed by Governor Martz was comprised of 14 members representing the Legislature, state agencies, local governments, the tourism, agriculture and other sectors of the economy, and the Montana Chamber of Commerce.

Committee Charge:

The charge to the Governor's Local Option Tourist Tax Advisory Council was:

> *Recommend whether to allow local voters to add a local tourist tax on to the statewide tourist tax. Whether or not recommended, the Council will recommend provisions necessary to administer such a tax, including the amount that could be added to a statewide tourist tax base by a local vote; the most fair and efficient manner to distribute a local option tourist tax; and the purposes for which it can be expended, which must include economic development and property tax relief.*

Committee Recommendations:

The Local Option Tourist Tax Council made the following recommendations:

- Revenue from a local option tourist tax should be distributed on a regional sharing basis which distributes 70% to the implementing jurisdiction and 30% to the economic region and sub-region. The county population used in the distribution formula should not include the residents of the cities in the county.
- A local option tourist tax imposed by a county should be imposed countywide (i.e. including any incorporated cities and towns).
- The combined rate of a county tax and city tax should be subject to a maximum rate. If a county imposes the local option tourist tax at the maximum rate, cities should be prohibited from implementing a tax. If a county imposes the tax at the maximum rate, then any existing city tax should be automatically repealed.
- Taxing jurisdictions should have limited flexibility in setting a local tax rate. The tax rate must be in whole percentage numbers.
- The resort tax and the local option tax would be mutually exclusive until the existing conditions of the resort tax area terminate, at which time the current resort communities would have to change to the local option tourist tax.
- The uses of the revenue should be unrestricted, but a minimum of 10% must go toward property tax relief.
- Any ballot for a local option tourist tax should specify the estimated amount of revenue that will be raised from the tax in the first full year, the duration of the tax, the effective date of the tax, and the purposes/uses of the tax revenue. The implementation date of the local option tourist tax should be the beginning of the fiscal year.
- The election on the enactment of a local option tourist tax should be held during the statewide general election, or by mail-in ballot, with a simple majority of those voting required for enactment.
- The maximum rate for the local option tourist tax is 3%.
- Both counties and cities and towns can enact a local option tourist tax within the above parameters.

Subsequent Legislation:

No legislation to date has provided for a local option tourism sales tax.

Governor's Property Tax Reappraisal Advisory Council

Study Committee:

In October of 2002, Governor Judy Martz appointed an 8-member Property Tax Reappraisal Advisory Council comprised of four legislators, the Director of the Department of Revenue, and 3 members representing the private sector.

Committee Charge:

The charge to the Governor's Property Tax Reappraisal Advisory Council was:

> *"to examine the impacts of cyclical reappraisal under current law and recommend any policy changes needed to mitigate and address the impacts of the January 1, 2003 reappraisal. "*

Committee Recommendations:

The Council made the following recommendations:

- Decrease the taxable valuation rate applied to Class 4 residential and commercial properties from 3.46% to 3.00%; increase the homestead exemption for residential properties from 31% to 34% of market value; and increase the exemption for commercial properties from 13% to 15% of market value, over the 6-year current law period for phasing in the increases in value of properties stemming from the January 1, 2003 appraisal values.
- The Council's concern with making property tax predictable and affordable for the minority of Montana resident homeowners who would still experience a significant increase in tax liability resulting from reappraisal lead us to recommend that the Legislature look at acquisition value as a viable option to the current property tax system.

Subsequent Legislation:

SB461 (2003) effectively implemented the Council's recommendation for immediate relief from increases in reappraisal values. It retained the six-year phase-in of reappraisal values, but further mitigated the effects of reappraisal by increasing exemption amounts for residential and commercial class 4 properties, while also reducing the tax rate on class 3 and 4 property from 3.46% to 3.01% over a six-year period, as shown in the following table:

SB461 Tax Rates for Class 3 and 4 Property Exemption Percentages for Class 4 Residential and Commercial			
Tax Year	Class 3 & 4 Tax Rate	Class 4 Exemption Percentages Residential	Commercial
2002	3.46%	31.00%	13.00%
2003	3.40%	31.00%	13.00%
2004	3.30%	31.40%	13.30%
2005	3.22%	32.00%	13.80%
2006	3.14%	32.60%	14.20%
2007	3.07%	33.20%	14.60%
2008	3.01%	34.00%	15.00%

SB461 also provided for an extended property tax assistance program for taxpayers who meet certain property tax increase and income requirements; and created the interim Property Tax Reappraisal Study Committee and the Tax Reform Study Committee.

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